

# **URGENT NEWS ALERT**

## **Republicans Use Prescription Drug Bill As Trojan Horse to Undermine Medicare**

### ***Legislation Provides Feeble Drug Benefit While Failing to Reduce Costs***

Memo to: Editorial Writers, Columnists, Reporters  
Memo from: Congressman Steny Hoyer  
Re: Prescription Drug and Medicare Privatization Plan Proposed by  
Republicans  
Date: Tuesday, November 18, 2003

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### **Seniors Don't Want to Privatize Medicare, They Want a Reliable, Affordable Drug Benefit That Helps Them**

In the next few days, Congress will vote on legislation that would make the most sweeping changes to Medicare since the program was established 38 years ago. I urge you to weigh in on this important issue by writing editorials, commentaries and news stories that examine the ramifications of this Republican Bill. (Descriptions of the Republican plan, as well as the alternative supported by Democrats, are provided below.)

I have met with literally hundreds of Maryland seniors at Town Hall meetings over the last few months to discuss the federal effort to provide a prescription drug benefit for seniors. At these meetings and in thousands of letters and phone calls, seniors have been crystal clear: They want a prescription drug benefit that is affordable, comprehensive and guaranteed. Furthermore, they like the coverage provided in the current Medicare system, and oppose any measure that would undermine the program. In talking to my congressional colleagues from around the country, it is clear that seniors across America share these views.

### **A Classic Bait and Switch: Republican Bill Offers Inadequate Drug Benefit, As It Seeks to Privatize – and End – Medicare**

For years, Republican leaders were open and honest about their disdain for Medicare. In 1995, former House Speaker Newt Gingrich (R-GA) told a health care group: “But we believe it’s going to wither on the vine because we think people are going to voluntarily leave it [Medicare].” [Associated Press, 10/24/95] That same year, former House Majority Leader Dick Armey (R-TX) left little doubt about his feelings, saying he “deeply resents the fact that when I’m 65, I must enroll in Medicare.” He called Medicare “a program that I would have no part of

in a free world.” [Chicago Tribune, 7/11/95] More recently, Senator Rick Santorum (R-PA), the third-ranking Member of the Senate Republican leadership team, said: “I believe the standard benefit, the traditional Medicare program, has to be phased out.” [New York Times, 5/21/03]

Today, through H.R. 1, the Prescription Drug and Medicare Privatization Conference Report, Republicans are closer than ever to realizing their long-sought goal: the privatization and dismantlement of the Medicare program that has been the bedrock of senior health care in America for nearly four decades.

**How Would the Plan to Privatize Work?** Under the Republican Bill – which the GOP cleverly calls a “prescription drug bill” – Medicare would be forced to compete with private managed care plans to offer senior health coverage starting in 2010. The U.S. Department of Health and Human Services estimates that this provision would increase Part B Medicare premiums for some beneficiaries by as much as 88%, with drastic variations in premiums from one region of the country to the next.

The GOP privatization effort would begin as a massive “demonstration” project that would include millions of American seniors in six “areas” of the country that are not denominated in the legislation. Congress could quickly expand this demonstration project once it is established. And it must be noted, Medicare and managed care would NOT be operating on equal footing. Managed care providers would be heavily subsidized under this Republican plan.

*Even many Republicans who support the traditional Medicare program see right through this smokescreen.* Last week, 44 U.S. Senators, including seven Republicans (Senators Snowe, Collins, McCain, Specter, Chafee, Allard, Campbell), questioned whether this is really a “demonstration project” at all. They wrote: “We are extremely concerned about the inclusion of this policy proposal in a Medicare bill. Though some may consider this a demonstration project, we disagree. This appears to be a veiled attempt to institute this policy into law.”

### **Republican Bill Contains Other Major Changes to Medicare Wholly Unrelated to a Prescription Drug Benefit**

**Means Testing.** For the first time since Medicare was established, a “means test” would be created under the Republican Bill. Beginning in 2007, the Medicare Part B premium would be linked to income. Seniors earning more than \$80,000 would pay higher premiums, even though higher-income seniors already pay higher Medicare payroll taxes. Faced with higher premiums, high-income seniors who are healthy could have an economic incentive to leave the Medicare program if they could purchase lower-cost insurance through federally subsidized managed care plans, shrinking the pool of Medicare beneficiaries and thus weakening the program.

**So-called “Cost Containment.”** Republicans refused to include measures that would reduce prescription drug costs. However, they did include language that would arbitrarily signal a “crisis” in Medicare when general revenues account for 45% or more of overall Medicare spending. This provision is designed to manufacture a “crisis” and thus encourage Congress to respond by cutting Medicare benefits, increasing premiums or raising the payroll tax.

**Health Savings Accounts.** These new tax shelters for higher-income individuals have nothing

to do with Medicare or providing a prescription drug benefit for seniors. In fact, they are not targeted to seniors.

### **The Republican Plan Sugarcoats Major Changes With a Feeble Prescription Drug Benefit**

Seniors who believe this Republican plan will provide them with an affordable, guaranteed prescription drug benefit are going to be sorely disappointed. Under the Republican plan, seniors would pay a \$35 monthly premium (\$420 annually), a \$275 annual deductible, and 25% of drug costs between \$276 and \$2,200 (or \$481) for total out-of-pocket costs on the first \$2,200 in drug costs of \$1,176. After \$2,200 in drug costs, seniors then pay 100% of their costs up to \$5,044. They would pay 5% of drug costs above that amount. Thus, seniors face a \$2,844 gap in coverage between \$2,200 and \$5,044. This gap would affect any senior who spends more than \$180 a month on medications (\$2,200 divided by 12 months).

**Private Insurers to Provide Drug Coverage.** Rather than providing a drug benefit under Medicare, the Republican plan relies on private insurers, allowing them to set premiums and deductibles and make decisions on which drugs to cover and what pharmacies seniors may visit.

**GOP Weakens Government “Fallback.”** Private insurers repeatedly have said that they do not intend to participate in the drug-only insurance marketplace. Therefore, it is critical that a workable government “fallback” is available in areas where private plans don’t emerge. However, Republicans weakened the fallback that was included in the bipartisan bill that passed the Senate this summer. The new fallback in the Republican plan would be triggered less often and protect fewer seniors.

**Encourages Employers to Drop Drug Coverage.** The Republican plan actually would encourage employers which currently offer prescription drug coverage to drop it. Despite attempts to mitigate this problem, approximately 2 to 3 million retirees who receive prescription drug coverage from their former employers could lose that coverage under the GOP plan.

### **Republican Plan Prohibits Government from Negotiating Lower Drug Prices**

Incredibly, the Republican bill fails to use the bargaining clout of 40 million seniors to lower drug costs. In fact, **the bill explicitly prohibits the U.S. Secretary of Health and Human Services from negotiating lower drug prices on behalf of Medicare’s beneficiaries.** Ironically, that is precisely what the government did after the Anthrax attacks in 2001; it negotiated with the manufacturer of Cipro. Furthermore, this Republican plan would not allow Americans to import drugs from countries where prices are lower.

### **The Democratic Plan Could Not be More Clear**

Democrats have fought for years to update Medicare by adding an affordable, guaranteed, comprehensive and voluntary prescription drug benefit **under Medicare.** Under the alternative offered by House Democrats earlier this year, seniors would pay a \$25 monthly premium, a \$100 annual deductible and then 20% co-insurance. There are no gaps in coverage in the Democrats’ plan. Furthermore, the Secretary of Health and Human Services would be authorized to

negotiate fair prices for Medicare's 40 million beneficiaries. Democrats are committed to providing seniors with the prescription drug benefit that they need and deserve.

### **Urge Congress to Go Back to the Drawing Board**

You may have heard that leaders in AARP in Washington, D.C., are supporting the Republican plan. However, their endorsement flies in the face of AARP's own concerns about the Republican approach. These concerns – including coverage gaps and means testing – were specifically identified by AARP in a letter this summer as problems that AARP said needed to be fixed before it could support the Republican plan. The fact is, those problems have not been remedied. Yet, AARP leaders have endorsed this GOP plan.

Perhaps, then, it's not surprising that Bill Novelli, chief executive officer of AARP, said on CNBC's Capital Report on November 18<sup>th</sup>:

*"We're hearing from our members. We're getting a lot of phone calls. The majority of the phone calls so far have been critical [of AARP's decision to endorse the GOP plan]."*

It also must be noted that many senior advocacy groups, including the National Committee to Preserve Social Security and Medicare and the Alliance for Retired Americans, are opposed to the Republican plan.

As Congress prepares to consider this important legislation, I urge you to weigh in with editorials, commentaries and news stories that critically examine the fundamental flaws in the Republican plan. Congress should reject this plan, go back to the drawing board, and produce legislation that provides seniors with a prescription drug benefit that they need and deserve.

If you have any questions concerning this Republican plan or the Democratic alternative, please call Katie Elbert in my Congressional Office at 202-225-4131 or Stacey Farnen in the Office of the Democratic Whip at 202-225-3130.